

## Basics of Cost Allowability: OMB Circular A-122

Session 4  
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## What Are “Cost Principles”

- Federal Policies for Determining:
  - (1) What Costs Can Be Charged to Federal Awards
  - (2) What Costs Cannot Be Charged to Federal Awards
  - (3) How Allowable Costs Are to Be Documented

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## The Federal Cost Principles Universe

- OMB Circular A-21—Educational Institutions (2 CFR 220)
- OMB Circular A-87—State, Local and Tribal Governments (2 CFR 225)
- **OMB Circular A-122—Nonprofit Organizations (2 CFR 230)**
- 45 CFR 74, Subpart E—Hospitals
- 48 CFR 31.2—Commercial Entities
- Similar...yet Different

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## What Federal Awards Do Cost Principles Apply to?

- Cost-reimbursable Grants
- Cost-reimbursable Cooperative Agreements
- Cost-reimbursable Contracts
- Cost-reimbursable Subawards (Subcontracts, Subgrants, Contracts Under Grants)

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## What Federal Awards Don't the Cost Principles Apply to?

- Fixed Price Contracts
- Fixed Obligation Grants
- Capitated Awards
- However...if cost components are used to arrive at the fixed amount...then...

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## Circular A-122 Background

- Preceded by HEW Cost Principles for Nonprofit Organizations
- Initial OMB Issuance (1980)
- Revisions (1984, 1998, 2004)
- Key Issues:
  - Lobbying
  - Interest Allowability
  - Indirect Cost Recovery
  - Consistency with Other Circulars

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## Organization of the Circular

- Basic Policies
- General Tests of Allowability
- Prescribed Methods for Recovery of Indirect Costs
- Discussion of "Selected" Items of Cost

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## Key Basic Policies

- Federal "Fair Share"
- Grantee Organizational Diversity and Autonomy
  - Federal Concern about "Financially Dependent" Grantees and Subgrantees
- Applicability to Subawards
- Definitions
  - Prior Approval (Contrast to Circular A-110)
- Advance Understandings

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## Direct vs. Indirect

- "Accounting Convenience"
- Typical Direct Costs
- Typical Indirect Costs
- "Because of the diverse characteristics of nonprofit organizations..."

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## The General Tests of Allowability (Attachment A, Section A)

- Reasonable
- Allocable
- Consistent with Organizational Policies
- Consistently Treated in All Circumstances
- Subject to Properly Imposed Limitations
- Consistent with GAAP
- Not Charged Elsewhere
- Net of Applicable Credits
- Adequately Documented

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## The "Selected" Items of Cost

- Allowable
- Allowable Under Certain Conditions
- Allowable with Prior Approval
- Allowable with Approval
- Unallowable

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### Determining the Allowability of Selected Items

- “Failure to Mention...”
- Guidance for Interpretation
  - Explicit Statement in Circular
  - Discussion of Similar Items in Circular
  - Treatment in Other Cost Principles
  - Use of the General Tests of Allowability

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### Allowability of “Big Ticket” Items Attachment B

- Employee Compensation
  - Salaries and Wages
  - Fringe Benefits
- Travel
- Equipment
- Supplies
- Consultants and Other Independent Contractors
- Space Occupancy

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### Allowability of “Small Ticket” Items

- Advertising and Public Relations
- Taxes
- Organizational Costs
- Fundraising
- “Fun and Games”
  
- Any Others?

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### Key Standards for Time and Effort Reporting

- Retained *not* submitted
- *After-the-fact* distribution
  - Budget estimates (do not qualify)
- Full disclosure of all activity
- Credible signature of knowledgeable person (employee or supervisor with first hand knowledge)
- Timely preparation and adjustment
- Treatment of volunteers (See A-110, Section \_\_\_\_23)

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### Why Worry about Timesheets

- Employee compensation is material to most human service-oriented grants
- Time and effort reporting is an identified risk area in OMB Circular A-133 (See Section 525(d)(1))
- Grantees from all sectors have had audit findings generated by federal audits

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### Possible Bases for Distribution of Common Costs

- Relationship to Benefits Received
  
- Examples:
  - Square footage
  - Number of personnel
  - Number of transactions
  - Total direct cost of each benefiting activity

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## Fundamentals of Allocation of Indirect Costs

- Simplified Method
- Multiple Allocation Base Method (Required for Organizations with \$10M or More Annually)
- Direct Charge Method
- USDOL Indirect Cost Determination Guide

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## How a Nonprofit Organization Gets a Rate

- Indirect Cost Cognizance
- Organizational Review
- Tying Costs to Functions
- Determining Allocation Bases
- Calculating the Rate
- Allowable Indirect Costs *divided by* A Selected Direct Cost Base
- Submission (or Retention of the Calculation)
- Federal Review
- Negotiation
- Issuance of a Rate Agreement
- Application of the Rate

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